

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**Flat River Community Library
Greenville, Michigan**

FINANCIAL STATEMENTS

June 30, 2004

Flat River Community Library

Greenville, Michigan

June 30, 2004

BOARD OF TRUSTEES

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Flat River Community Library

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Flat River Community Library
Greenville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Flat River Community Library as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Flat River Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Flat River Community Library as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Library has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 23, 2004

108 N. Spring St. ▪ St. Johns, MI 48879-1574 ▪ (989) 224-6836 ▪ FAX: (989) 224-6837
745 Barclay Circle, Suite 335, PO Box 70067 ▪ Rochester Hills, MI 48307 ▪ (248) 844-2550 ▪ FAX: (248) 844-2551

Flat River Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

New Financial Reporting

Starting with fiscal year ended June 30, 2004, the Flat River Community Library, (the Library) has revised and improved the financial reporting document. These changes are a result of standards set by the Government Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library manages its money and other assets.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Library's financial statements which will immediately follow this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB Statement No. 34.

Financial Highlights

The following represent the most significant financial highlights for the year ending June 30, 2004:

- The assets of the Library exceeded its liabilities at the end of the fiscal year by \$2,560,938 (net assets) at the government-wide level.
- The Library's total net assets decreased by \$183,992 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental funds reported a combined fund balance of \$644,529.
- State aid, penal fines and interest income were less than anticipated due to the state and national economies.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Flat River Community Library as a whole and present a longer-term view of the Library's finances.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Flat River Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

The Library as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004. A comparative analysis of data will be presented in future years as information is available.

Assets	
Current assets	\$ 688,497
Noncurrent assets	<u>3,479,696</u>
Total assets	4,168,193
Liabilities	
Current liabilities	117,743
Noncurrent liabilities	<u>1,489,512</u>
Total liabilities	<u>1,607,255</u>
Net Assets	
Invested in capital assets, net of related debt	1,929,696
Restricted for debt service	134,878
Unrestricted	<u>496,364</u>
Total net assets	<u>\$ 2,560,938</u>

The following table shows the changes in net assets during the current year.

Revenues	
General revenue:	
Property taxes	\$ 538,312
State Aid	16,230
Fines and forfeits	90,700
Interest	12,692
Program Revenue:	
Charges for service	18,212
Operating grants and contributions	<u>10,012</u>
Total revenues	686,158
Program Expenses	
Library services/operations	787,630
Interest on long-term debt	<u>82,520</u>
Total expenses	<u>870,150</u>
Change in Net Assets	<u>\$(183,992)</u>

Governmental Activities

The Library's governmental revenues totaled \$686,158 with the greatest revenue being property taxes levied by the district. Property taxes make up approximately 78.5 percent of total governmental revenue.

The Library incurred expenses of \$870,150 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function, with the exception of interest expense incurred on long-term debt.

Flat River Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

The Library's Funds

The analysis of the Library's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the specific funds, not the Library as a whole. The Flat River Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities.

The Library maintains four governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Library. The General Fund, Debt Service Fund, and the Capital Projects Fund are major funds for financial reporting purposes as defined by GASB Statement #34.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$608,221 and had operating transfers out of \$145,257 for the fiscal year. The Debt Service Fund pays the principal and interest as it becomes due for the Library's General Obligation Bonds payable.

The basic governmental fund financial statements can be found on pages 3 through 11 of this report.

General Fund Budgetary Highlights

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget.

Due to decreases in the amount of state aid, penal fines and interest earned and the increase in the debt service payment, the Library used \$83,023 from the fund balance to cover incurred expenses. The Library expended \$33,173 more than it budgeted for its administration expenses. The budgeted salaries were projected to be lower than usual because in the prior year, the Director position was vacant for a portion of the year and then filled with an Interim Director. In the current year, the Director position was filled as a full time position, which has increased the overall salaries.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$3,479,696 invested in buildings and improvements, equipment and furniture, and books, periodicals, and videos (net of accumulated depreciation). The main capital assets added were \$59,278 in collections (i.e., books, periodicals, etc.) and \$1,026 in equipment and furniture.

No debt was issued during the fiscal year. However, the Library has bonded debt for the building project of 1997 with interest and principal payment due each year. The principal and interest payments for this fiscal year totaled \$143,020.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Library Director at 200 W. Judd St., Greenville, MI 48838. Phone: 616-754-6359.

BASIC FINANCIAL STATEMENTS

Flat River Community Library
STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 396,530
Investments	147,988
Assets held by foundation	46,528
Accrued interest receivable	177
Due from other governmental units	90,937
Prepaid expenditures	<u>6,337</u>
Total current assets	688,497
Noncurrent assets	
Capital assets, net	<u>3,479,696</u>
TOTAL ASSETS	4,168,193
LIABILITIES	
Current liabilities	
Accounts payable	18,913
Accrued liabilities	8,569
Accrued interest	13,287
Current portion of compensated absences	6,974
Current portion of long-term debt	<u>70,000</u>
Total current liabilities	117,743
Noncurrent liabilities	
Noncurrent portion of compensated absences	9,512
Noncurrent portion of long-term debt	<u>1,480,000</u>
Total noncurrent liabilities	<u>1,489,512</u>
TOTAL LIABILITIES	<u>1,607,255</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,929,696
Restricted for debt service	134,878
Unrestricted	<u>496,364</u>
TOTAL NET ASSETS	<u><u>\$ 2,560,938</u></u>

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	
Governmental activities:				
Recreation and cultural	\$ 787,630	\$ 18,212	\$ 10,012	\$ (759,406)
Interest on long-term debt	82,520	-	-	(82,520)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 870,150	\$ 18,212	\$ 10,012	(841,926)
General revenues:				
				538,312
				16,230
				90,700
				12,692
			TOTAL GENERAL REVENUES	657,934
			CHANGE IN NET ASSETS	(183,992)
			Net assets, beginning of year	2,744,930
			Net assets, end of year	\$ 2,560,938

See accompanying notes to financial statements.

Flat River Community Library
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2004

	General	Debt Service	Capital Projects
ASSETS			
Cash and cash equivalents	\$ 282,492	\$ -	\$ 79,808
Investments	-	147,988	-
Assets held by foundation	-	-	-
Accrued interest receivable	-	177	-
Due from other funds	14,431	-	-
Due from other governmental units	90,937	-	-
Prepaid expenditures	6,337	-	-
TOTAL ASSETS	<u>\$ 394,197</u>	<u>\$ 148,165</u>	<u>\$ 79,808</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ 18,913	\$ -	\$ -
Accrued liabilities	8,569	-	-
Due to other funds	5,537	-	12,391
TOTAL LIABILITIES	33,019	-0-	12,391
FUND BALANCES			
Reserved			
Publications/circulations	-	-	-
For other activities	-	-	-
For future operations	145,750	-	-
Debt service	-	148,165	-
Unreserved			
Undesignated, reported in			
General fund	215,428	-	-
Special revenue fund	-	-	-
Capital projects fund	-	-	67,417
TOTAL FUND BALANCES	<u>361,178</u>	<u>148,165</u>	<u>67,417</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 394,197</u>	<u>\$ 148,165</u>	<u>\$ 79,808</u>

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Memorial Book)	Total Governmental Funds
\$ 15,704	\$ 378,004
-	147,988
46,528	46,528
-	177
5,537	19,968
-	90,937
-	6,337
<u>\$ 67,769</u>	<u>\$ 689,939</u>
\$ -	\$ 18,913
-	8,569
-	17,928
-0-	45,410
5,330	5,330
62,439	62,439
-	145,750
-	148,165
-	215,428
-	-
-	67,417
<u>67,769</u>	<u>644,529</u>
<u>\$ 67,769</u>	<u>\$ 689,939</u>

Flat River Community Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balance - governmental funds \$ 644,529

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 4,824,306	
Accumulated depreciation is	<u>(1,344,610)</u>	
Capital assets, net		3,479,696

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets.

Long-term liabilities of Internal Service Funds included in total long-term liabilities below		16,486
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct obligations	1,550,000	
Accrued interest payable	13,287	
Compensated absences	<u>16,486</u>	
		<u>(1,579,773)</u>

Net assets of governmental activities		<u><u>\$ 2,560,938</u></u>
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See accompanying notes to financial statements.

Flat River Community Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	General	Debt Service	Capital Projects
REVENUES			
Property taxes	\$ 538,312	\$ -	\$ -
Intergovernmental - State aid	16,230	-	-
Fines and forfeits	108,658	-	-
Interest	2,916	2,529	901
Charge for service	254	-	-
Other			
Contributions	4,085	-	-
TOTAL REVENUES	670,455	2,529	901
EXPENDITURES			
Recreation and cultural	548,909	-	-
Capital outlay	59,312	-	-
Debt service	-	143,020	-
TOTAL EXPENDITURES	608,221	143,020	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	62,234	(140,491)	901
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	143,020	-
Operating transfers out	(145,257)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(145,257)	143,020	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(83,023)	2,529	901
Fund balances, beginning of year	444,201	145,636	66,516
Fund balances, end of year	\$ 361,178	\$ 148,165	\$ 67,417

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Memorial Book)	Total Governmental Funds
\$ -	\$ 538,312
-	16,230
-	108,658
6,346	12,692
-	254
<u>5,927</u>	<u>10,012</u>
12,273	686,158
-	548,909
2,048	61,360
-	143,020
<u>2,048</u>	<u>753,289</u>
10,225	(67,131)
-	143,020
-	<u>(145,257)</u>
<u>-0-</u>	<u>(2,237)</u>
10,225	(69,368)
<u>57,544</u>	<u>713,897</u>
<u>\$ 67,769</u>	<u>\$ 644,529</u>

Flat River Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (69,368)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	60,304	
Depreciation expense	<u>(231,734)</u>	
Excess of depreciation expense over capital outlay		(171,430)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Fund	(1,773)	
Net operating transfers	<u>2,237</u>	
		464

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement		60,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	500	
(Increase) in accrued compensated absences	<u>(4,158)</u>	
		<u>(3,658)</u>

Change in net assets of governmental activities \$ (183,992)

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF NET ASSETS - PROPRIETARY FUND

June 30, 2004

	Governmental Activities <hr/> Internal Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 18,526
Due from other funds	<hr/> -
TOTAL ASSETS	18,526
LIABILITIES	
Current liabilities	
Accrued liabilities	16,486
Due to other funds	<hr/> 2,040
TOTAL LIABILITIES	<hr/> 18,526
NET ASSETS	
Unrestricted	<hr/> <hr/> \$ -0-

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND

Year Ended June 30, 2004

	Governmental Activities <u>Internal Service Fund</u>
OPERATING REVENUES	\$ -
OPERATING EXPENSES	
Benefit payments	<u>4,158</u>
OPERATING (LOSS)	(4,158)
NONOPERATING REVENUES	
Interest earned	<u>148</u>
(LOSS) BEFORE TRANSFERS IN	(4,010)
TRANSFERS IN	<u>2,237</u>
CHANGE IN NET ASSETS	(1,773)
Net assets, beginning of year	<u>1,773</u>
Net assets, end of year	<u><u>\$ -0-</u></u>

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended June 30, 2004

	Governmental Activities <hr/> Internal Service Fund <hr/>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,040
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	2,237
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<hr/> 148
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,425
Cash and cash equivalents, beginning of year	<hr/> 14,101
Cash and cash equivalents, end of year	<hr/> <hr/> \$ 18,526
Reconciliation of operating (loss) to net cash provided by operating activities	
Operating (loss)	\$ (4,158)
Adjustments to reconcile operating (loss) to net cash provided by operating activities	
(Increase) in due from other funds	(2,237)
Increase in due to other funds	4,277
Increase in accrued liabilities	<hr/> 4,158
NET CASH PROVIDED BY OPERATING ACTIVITIES	<hr/> <hr/> \$ 2,040

See accompanying notes to financial statements.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the City of Greenville, and the Townships of Fairplain, Eureka, and Montcalm created the Flat River Community Library on October 29, 1996, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. In addition, Montcalm County collects and distributes countywide taxes to the seven (7) District Libraries of the County. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board which is comprised of eight (8) members, two (2) appointed by the City of Greenville, two (2) appointed by the Township of Fairplain, two (2) appointed by the Township of Eureka, and two (2) appointed by the Township of Montcalm.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of Flat River Community Library (primary government). The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library except for those that are required to be accounted for in another fund.
- b. The Debt Service Fund is used to account for the financial resources that are used for the retirement of long-term debt.
- c. The Capital Projects Fund is used to account for the financial resources that are used for capital improvements to the Library.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. If/when both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled receivables of all proprietary funds are recorded at year-end. In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting, the proprietary funds have applied all applicable GASB pronouncements as well as all FASB statements and interpretations issued on or before November 30, 1989, unless the FASB pronouncements conflict or contradict GASB pronouncements.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library Director prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- c. The budget is legally adopted at the total expenditure account level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking and savings accounts and certificates of deposit. All certificates are stated at cost, which approximates fair value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Property Taxes

The participating City, Townships, and Montcalm County levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Montcalm County. Near the end of the fiscal year the County remits the Library's portion of the countywide levy of .4443 mills. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of 1 mill, .7339 mills for operating, and .2661 mills for debt. For the year ended June 30, 2004, the Library levied 1 mill.

8. Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

9. Capital Assets

Capital assets include land, buildings, equipment, books, periodicals, and videos and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Books, periodicals, and videos	10 years
Equipment and furniture	3 - 20 years
Buildings	40 years

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

11. Vacation and Sick Leave

Library employees are granted vacation and sick leave in varying amounts based on length of service. Vacation must be used by December 31 or it is forfeited. Employees can accumulate up to 120 sick days. Accumulations in excess of that amount are paid at 50% of the unused portion as of December 31 at the employee's pay rate. Upon termination, employees are paid on a prorated basis for unused vacation of that year at their current rates. Upon termination of employment after 10 years of service, or upon retirement or death of an employee, payments will be for 50% of accumulated sick leave for non-union employees and for 100% of accumulated sick leave for union employees who started before July 1, 1997.

The cost of vested accumulated vacation and sick leave along with the related payroll taxes is recorded as a liability in the Internal Service Fund and in the government-wide financial statements.

12. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

13. Accounting Change

As of July 1, 2003, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$4,805,440, which was previously reported in the General Fixed Asset Account Group. The government-wide statement of activities reflects depreciation expenses on the Library's capital assets.
- Long-term obligations reported on the statement of net assets include \$1,610,000, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Accounting Change - continued

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Library cash, cash equivalents, and investments consist of a common checking account, savings, money markets, and certificates of deposit, and are reported as cash, cash equivalents, and investments in the basic financial statements.

In accordance with Michigan Compiled Laws, the Flat River Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits

As of June 30, 2004, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 2,500	\$ 2,500
Savings	89,808	89,819
Certificates of deposit	<u>147,988</u>	<u>147,988</u>
TOTAL	<u>\$ 240,296</u>	<u>\$ 240,307</u>

As of June 30, 2004, the Library's deposits were insured by the FDIC for \$192,319, and the amount of \$47,988 was uninsured and uncollateralized.

The cash and cash equivalents reported in the financial statements include \$50 in imprest cash.

Pooled Funds

As of June 30, 2004, the amount of cash and cash equivalents of the Library pooled with the City of Greenville's deposits was \$304,172. Since the City maintains these funds in pooled accounts, it is not practical to determine what portion of the Library's funds is insured.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments caption in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2004:

Cash and cash equivalents	\$ 396,530
Investments	<u>147,988</u>
	<u>\$ 544,518</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2004:

Due to General fund from:	
Capital Projects fund	\$ 12,391
Internal Service fund	<u>2,040</u>
	14,431
Due to nonmajor governmental fund from:	
General fund	<u>5,537</u>
	<u>\$ 19,968</u>

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Debt Service fund from:	
General Fund	\$ 143,020
Transfers to Internal Service fund from:	
General Fund	<u>2,237</u>
	<u>\$ 145,257</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities				
Books, periodicals, and videos	\$ 1,106,830	\$ 59,278	\$ -	\$ 1,166,108
Buildings and additions	3,300,000	-	-	3,300,000
Equipment and furniture	<u>357,172</u>	<u>1,026</u>	<u>-</u>	<u>358,198</u>
Totals at historical cost	4,764,002	60,304	-0-	4,824,306
Less accumulated depreciation for:				
Books, periodicals, and videos	(586,004)	(113,647)	-	(699,651)
Buildings and additions	(371,250)	(82,500)	-	(453,750)
Equipment and furniture	<u>(155,622)</u>	<u>(35,587)</u>	<u>-</u>	<u>(191,209)</u>
Total accumulated depreciation	<u>(1,112,876)</u>	<u>(231,734)</u>	<u>-0-</u>	<u>(1,344,610)</u>
Capital assets, net	<u>\$ 3,651,126</u>	<u>\$(171,430)</u>	<u>\$ -0-</u>	<u>\$ 3,479,696</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the Library for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
PRIMARY GOVERNMENT					
1997 General Obligation Bonds	\$ 1,610,000	\$ -	\$ 60,000	\$ 1,550,000	\$ 70,000
Accumulated Sick/Vacation	<u>12,328</u>	<u>4,158</u>	<u>-</u>	<u>16,486</u>	<u>6,974</u>
	<u>\$ 1,622,328</u>	<u>\$ 4,158</u>	<u>\$ 60,000</u>	<u>\$ 1,566,486</u>	<u>\$ 76,974</u>

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long term debt is presented below:

1997 General Obligation Bonds

\$1,800,000 Building and Site Bonds, dated August 1, 1997, due in annual installments ranging from \$70,000 to \$145,000 through May 1, 2018, with interest ranging from 5.00 to 5.25 percent, payable semi-annually. \$ 1,550,000

The annual requirement to pay the debt principal and interest outstanding for the bonds is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 70,000	\$ 79,720	\$ 149,720
2006	75,000	76,220	151,220
2007	80,000	72,470	152,470
2008	90,000	68,470	158,470
2009	100,000	63,970	163,970
2010-2014	575,000	238,630	813,630
2015-2018	<u>560,000</u>	<u>74,287</u>	<u>634,287</u>
	<u>\$ 1,550,000</u>	<u>\$ 673,767</u>	<u>\$ 2,223,767</u>

Accumulated Sick/Vacation

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded as a liability in the Internal Service fund and governmental-wide financial statements, amounted to approximately \$16,486 at June 30, 2004.

NOTE G: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2004:

Fund Balances

General Fund	
For future operations	\$ 145,750
Special Revenue Fund	
Publications/circulations	5,330
For other activities	<u>62,439</u>
	67,769
Debt Service	
Debt service	<u>148,165</u>
Total	<u>\$ 361,684</u>

Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2004:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Debt service

\$ 134,878

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the budgetary comparison schedule, the Library's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budget of the General Fund has been adopted at the functional classification level.

During the year ended June 30, 2004, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amount Appropriated</u>	<u>Amount Expended</u>	<u>Variance</u>
Administration	\$ 505,900	\$ 539,073	\$ 33,173
Professional and contractual services	5,000	9,836	4,836
Publications/circulation	54,000	57,230	3,230
Operating transfers out	142,750	145,257	2,507

NOTE J: RISK MANAGEMENT

The Library maintains commercial insurance for property, liability, bonding, and casualty losses. The Library also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE K: ASSETS HELD BY FOUNDATION

In April 2000, the Library entered into an agreement with the Greenville Area Community Foundation (the Foundation) to create the Flat River Community Library Fund (the Fund). In order to establish the Fund, the Library transferred cash to the Foundation in the amount of \$31,000. The purpose of the Fund is to provide funding for grants to the Library from the earnings of the assets in the Fund. The assets of the Fund shall be all those assets contributed to the Fund by the Flat River Community Library Board of Directors and by any other persons or legal entities along with all earnings attributed to such assets.

All earnings attributed to the assets of the Fund will be made available to the Flat River Community Library annually. Any earnings not so distributed will be reinvested in the assets of the Fund. The assets of the Fund may be distributed upon a special request of the Library. The market value of the Fund as of June 30, 2004, is \$46,528. These funds are invested in stocks, bonds, and other short-term securities.

REQUIRED SUPPLEMENTARY INFORMATION

Flat River Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 530,750	\$ 530,750	\$ 538,312	\$ 7,562
Intergovernmental - State aid	14,000	14,000	16,230	2,230
Fines and forfeits	114,000	114,000	108,658	(5,342)
Interest	3,500	3,500	2,916	(584)
Charge for service	-	-	254	254
Other				
Contributions	7,000	7,000	4,085	(2,915)
TOTAL REVENUES	669,250	669,250	670,455	1,205
EXPENDITURES				
Recreation and cultural				
Administration	505,900	505,900	539,073	(33,173)
Professional and contractual services	5,000	5,000	9,836	(4,836)
Capital outlay				
Publications/circulation	54,000	54,000	57,230	(3,230)
Other	5,000	5,000	2,082	2,918
TOTAL EXPENDITURES	569,900	569,900	608,221	(38,321)
EXCESS OF REVENUES OVER EXPENDITURES	99,350	99,350	62,234	(37,116)
OTHER FINANCING USES				
Operating transfers out	(142,750)	(142,750)	(145,257)	(2,507)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(43,400)	(43,400)	(83,023)	(39,623)
Fund balances, beginning of year	444,201	444,201	444,201	-0-
Fund balances, end of year	\$ 400,801	\$ 400,801	\$ 361,178	\$ (39,623)

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

Members of the Board of Trustees
Flat River Community Library
Greenville, Michigan

As you know, we have recently completed our audit of the records of the Flat River Community Library as of and for the year ended June 30, 2004. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The Library should monitor and amend budgets for applicable funds as necessary.

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated in the General fund.

Michigan Public Act 621 of 1978, as amended, provides that the Board shall adopt formal budgets for the General fund and Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We suggest that the Library adopt and amend its budgets through Board resolution and monitor budgeted against actual expenditures.

2. The Library should complete the Tax Rate Request Form in a timely manner.

During our audit it was noted that the Library had not completed the proper L-4029 Tax Rate Request form prior to the City of Greenville's summer tax levy on July 1.

We suggest that the Library assure that the proper L-4029 Tax Rate Request form is completed in a timely manner and remitted to the City of Greenville.

3. The Library should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted the Library does not have a capitalization threshold policy in place. This policy would set forth a dollar threshold for items purchased by the Library, which would be considered material, long-lived assets which should be capitalized and depreciated.

We suggest the Library adopt a capitalization threshold policy. We also recommend that the Library perform a detailed inventory of the Library's assets and compile a complete listing of capital assets, along with historical costs, useful lives, and depreciation values.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated September 23, 2004.

This report is intended solely for the information of management and the Board of Trustees of the Flat River Community Library and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 23, 2004